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TAGS: ECON ENRG EINV ETRD OPIC LI
SUBJECT: LIBERIA: GOL SIGNS CONTRACT POWER PLANT FUELED BY RUBBERWOOD

REF: 08 MONROVIA 649

¶1. (SBU) SUMMARY: Canadian firm Buchanan Renewables (Monrovia) Power, Inc. (BRP) signed January 21 a concession agreement with the Government of Liberia (GOL) and a power purchase agreement with the Liberia Electricity Corporation (LEC) for the construction of a 35-megawatt power plant to provide electricity from renewable sources to the Monrovia area. The agreements commit to over $200 million of investment and must be ratified by the national legislature. The Overseas Private Investment Corporation (OPIC) has approved a loan of up to US$112 million for the project with the remaining amount funded by equity. BRP expects to begin producing power by the end of 2010, but putting that power to use requires speedy action by the GOL to reform LEC management and complete a transmission grid. END SUMMARY.

¶2. (U) BRP hopes to begin construction of the power plant in February. The power plant and transmission line linking the plant to the Monrovia grid are estimated to cost $150 million. The power plant will be fueled with woodchips from Liberian rubber trees that are beyond their useful life (approximately 30 years). BRP has pledged to re-plant new trees in even greater numbers in order to ensure the project has a carbon neutral footprint. The use of domestically available renewable sources of fuel is thought to be the first of its kind in Africa.

¶3. (SBU) BRP says the power will be sold at about 25 U.S. cents per kWh. Current diesel-generated power under the Emergency Power Program costs about 50 cents per kWh. Long-term hydroelectric power is expected to cost roughly 5-12 cents per kWh. Initial transmission to the LEC grid is expected to begin in late 2010. BRP expects to employ 100 Liberians at the plant and another 600 are already employed by other subsidiaries. (Note: Buchanan Renewables (Monrovia) Power, Inc. is a Liberian corporation, wholly owned by Buchanan Renewables (BR) B.V. which in turn is owned over 90% by the investment arm of the Canadian McCall MacBain Foundation, currently the largest private donor in Liberia. The foundation has pledged to give back any profits to health, education and development projects in the country. End note.)

¶4. (SBU) The three agreements BRP and GOL signed all require legislative ratification. The first is a concession agreement authorizing BRP to build a 35-megawatt power plant that will provide electricity to the Monrovia area. The second and third agreements enable parent company Buchanan Renewables (BR) to bring in heavy equipment and spare parts under favorable terms to cut and chipQnproductive rubber trees, both for domestic use in the power plant and for export. The agreements also define the essential construction, road repair and maintenance services associated with the operation.

¶5. (SBU) Negotiations for the agreements were complex and protracted. To minimize risk, BRP reportedly demanded a "lockbox" arrangement in the Power Purchase Agreement (PPA) under which revenues earned by the LEC are paid directly into an escrow account from which BRP is paid first. Attorneys and advisors to the GOL were concerned the arrangement would discourage other potential investors in the power sector. The GOL was also concerned by the "affordability" of the power compared to long-term hydroelectric power. Ultimately, pressure to begin power generation pushed both sides to reach an agreement on this and other outstanding issues.

¶6. (SBU) The project still faces considerable hurdles. The national legislature does not have a record for speedy or transparent consideration of concession agreements, and there is a danger delays in the ratification process could jeopardize financing and construction (Note: Ratification is required by Liberian law and a condition precedent for the OPIC loan. End note.) Second, although BRP will construct the 30 miles of power lines required to get the electricity from the plant to Monrovia, completion of the distribution and transmission lines inside Monrovia will require a sizable and swift intervention by the GOL and its donor partners. Finally, the LEC's ability to manage the distribution and billing network remains in doubt; the GOL now supports a proposal from the Government of Norway to outsource a management contract for the LEC.

¶7. (SBU) Parent company Buchanan Renewables (BR) announced January 15 that its subsidiary BR Fuels had completed the first export shipment of 12,000 metric tons of woodchips to Italy for use in low carbon energy production. The shipment, which was initially scheduled for March 2008 but was repeatedly postponed, is believed to be the first shipment of its kind from Africa to Europe. BR also has a Technical Services subsidiary to handle roadbuilding and port operations. BR signed an agreement in November with the National

Port Authority under which BR will receive favorable berthing and storage rights at the Port of Buchanan for its woodchip exports in exchange for which BR would help renovate port facilities and dredge

shipping lanes in Buchanan, in addition to removing the Torm Alexander ship currently blocking key berths at the Port of Monrovia.

¶8. COMMENT: (SBU) BRP has demonstrated considerable vision and determination in its efforts to make this project work in the face of significant challenges, risks and uncertainties, many of which remain unresolved. If successful, the 35MW BRP power plant will be an important source of more affordable electricity and a positive contribution to improving the investment climate in Liberia. The plant would bridge the gap between the costly (40-50 cents per kWh), donor-funded, fuel oil-powered 10MW Emergency Power Program and cheaper (5-12 cents per kWh), high capacity hydroelectric sources in the longer-term future. In addition, the BRP plant would be a model for environmentally friendly generation of electricity - one of the very few countries in the world to rely on renewable fuels as its basis for power generation.

THOMAS-GREENFIELD